

Message Text

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SUBJECT: EGYPTIAN REACTION TO SAUDI \$300 MILLION GRANT

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SUMMARY. WHILE PUBLICLY SEEKING PUT BEST FACE POSSIBLE ON SAUDI \$300 MILLION GIFT, SENIOR EGYPTIAN OFFICIALS' PRIVATE REACTION IS ONE OF DISAPPOINTMENT AND BITTERNESS. THEY DECRY GRANT AS "PALTRY" AND ASSERT SAUDIS "HUMILIATED" SADAT. THERE ARE THOSE WHO WOULD LIKE TO TELL SAUDIS TO LUMP IT, BUT GOE CLEARLY CANNOT AFFORD TO DO SO. LESSON IS FORCING SENIOR GOE OFFICIALS TO ADOPT MORE REALISTIC PLANNING AND SOME EVEN SPEAK OF NEED FOR "AUSTERITY PROGRAM." CRITICS OF SADAT, SUCH AS HEIKAL, WHO PREDICTED SINAI II WOULD MEAN A REDUCTION OF SAUDI AID, MAY NOW BE EXPECTED CLAIM RIGHTNESS OF THEIR ESTIMATE. POSSIBILITY MAY EXIST THAT SYRIAN MAY ALSO PEDDLE THIS THEME. ANOTHER RESULT IS THAT GOE MAY BE EXPECTED INCREASINGLY LOOK TO USG AS ITS ECONOMIC "CRUTCH." MINFINANCE IS ALREADY URGING GREATER APPORTIONMENT OF AID TO CONSUMMABLES. HOWEVER, SINCE SAUDIS HAVE REGULARLY PARCELLED OUT THEIR BENEFICES TO EGYPT IN RELATIVELY SMALL AMOUNTS, IT SEEMS TO US GOE STILL STANDS CHANCE OF Eeking OUT OF SAUDIS ABOUT A BILLION DOLLARS BEFORE CY 76 ENDS. SUCH BEGGING BOWL ROUNDS MAY BE GALLING TO EGYPTIANS, BUT THEY HAVE NO FEASIBLE ALTERNATIVE. END SUMMARY.

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1. ALTHOUGH PUTTING BEST PUBLIC FACE POSSIBLE ON LATEST \$300 MILLION SAUDI GIFT, SUCH EGYPTIAN REACTION AS WE HAVE BEEN ABLE TO SAMPLE IS, PREDICTABLY, A COMBINATION OF SHOCK, DISAPPOINTMENT, SHAME AND BITTERNESS. AT DINNER GIVEN BY MINECONCOOP SHAFEI LAST NIGHT FOR UNDER SECRETARY ROBINSON, SENIOR EGYPTIAN ECONOMIC OFFICIALS PRESENT MADE NO BONES ABOUT THEIR FEELINGS. SHAFEI CALLED SUM "PALTRY" WHEN MEASURED AGAINST EGYPT'S NEEDS AND SAID SADAT HAD BEEN "HUMILIATED." ASSERTING THAT SAUDIS HAD SHOWN GREAT INSENSITIVITY TO SADAT'S PERSONAL PRESTIGE, HE CONTENDED THIS SMALL A SUM COULD HAVE BEEN NEGOTIATED WITH A LOWER RANKING OFFICIAL, NOT WITH THE PRESIDENT. EGYPT'S SACRIFICES IN BEHALF ARABS HAVE BEEN ILL-REQUITED. ANOTHER SENIOR GOE OFFICIAL COMMENTED LATEST SAUDI GRANT SHOULD BE SPURNED AS DEMEANING. EGYPT SHOULD BIDE ITS TIME UNTIL SAUDI ARABIA NEEDS GOE'S ASSISTANCE AND THEN METE OUT THE SAME KIND OF TREATMENT. SAUDIS, WHO HAVE DONE LITTLE FOR ARAB CAUSE, NOW EVEN REFUSE TO COMPENSATE EGYPT FOR THE SACRIFICES IT HAS MADE IN BEHALF OF THE ARAB WORLD. THERE WAS MORE OF THE SAME KIND OF BITTER TALK.

2. COMMENT: DESPITE PUBLIC STATEMENTS THAT SADAT AND KHALED WERE IN COMPLETE AGREEMENT ON ALL POINTS, WHATEVER THAT MEANS, THE LATEST SAUDI GRANT HAS REVIVED A CONSIDERABLE MEASURE OF EGYPTIAN ANIMOSITY TOWARD SAUDIS. RIGHTLY OR WRONGLY, EGYPTIANS HAVE BEEN PERSUADING THEMSELVES THAT THE WEALTHY ARAB STATES HAVE AN OBLIGATION TO PROVIDE VIRTUALLY UNLIMITED FINANCIAL SUPPORT TO EGYPT. EGYPTIAN DEVELOPMENT PLANNING, SUCH AS IT IS, HAS BEEN BASED LARGELY UPON THE EXPECTATION OF MASSIVE ARAB FINANCIAL ASSISTANCE. THIS IS NOW SEEN TO BE A HOUSE OF CARDS, WHICH THE MORE PERCEPTIVE EGYPTIANS SHOULD HAVE RECOGNIZED A LONG TIME AGO. EGYPTIANS ARE ALSO CONSCIOUS THAT OTHER GULF RULERS ARE LIKELY TO BE GUIDED BY WHAT SAG DOES IN DETERMINING SIZE OF THEIR CONTRIBUTIONS TO EGYPT. SAUDI RELUCTANCE GIVE A BLANK CHECK MAY BE UNDERSTANDABLE. AS SAUDI AMBASSADOR NAZIR HAS REPEATEDLY STATED, SAG DOES NOT BELIEVE GOE KNOWS HOW TO HANDLE MONEY. WHILE SAG WANTS TO HELP EGYPT, IT IS NOT PREPARED

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TO BECOMES EGYPT'S PERMANENT "SUGAR DADDY." SOME HAPPY MEDIUM OF CONTINUED SAUDI SUPPORT FOR EGYPT NEEDS BE FOUND, BUT NIETHER SAG NOR GOE HAS YET BEEN ABLE TO DO SO.

3. IN SHORT RANGE TERMS, THE LESSON IS BOTH SALUTARY AND DISTURBING FOR GOE. ON THE ONE HAND, IT FORCES GOE MINISTERS AND PLANNERS TO COME UP WITH MORE REALISTIC PLANNING FOR EGYPT'S ECONOMIC DEVELOPMENT.

FOR THE FIRST TIME, AT LEAST SOME SENIOR GOE ECONOMIC OFFICIALS ARE SPEAKING OF THE NEED FOR AN "AUSTERITY PROGRAM". MINDFUL OF POLITICAL PROBLEMS, THERE IS DISAGREEMENT AMONG THEM WHETHER, AND IF SO TO WHAT EXTENT, SUCH A PROGRAM CAN INCLUDE REDUCTION OF CONSUMMABLE IMPORTS. THEY ARE AGREED THAT PROJECT DEVELOPMENT MUST INEVITABLY BE DELAYED. ALTHOUGH SHAFEI CLAIMS THE PRIMIN HAS ALSO ACCEPTED NEED FOR AN AUSTERITY PROGRAM, IT REMAINS TO BE SEEN WHETHER SADAT AND HIS POLITICAL ADVISERS FEELS THEY CAN RISK IT.

4. ON NEGATIVE SIDE, THE SAUDI GRANT IS GRIST FOR THE MILL OF EGYPTIAN CRITICS OF SADAT'S POLICY, SUCH AS HEIKAL, WHO HAVE LONG ARGUED THAT THE STEP-BY-STEP APPROACH AND SINAI II WILL INEVITABLY LEAD TO A REDUCTION IN SAUDI AND OTHER ARAB FINANCIAL SUPPORT. WHILE THERE IS NO EVIDENCE THAT SINAI II IS IN ANY WAY RESPONSIBLE FOR THE LOWNESS OF THE GRANT, THERE WILL BE THOSE WHO WILL DELIBERATELY ASSOCIATE THE TWO IN ORDER TO GET AT SADAT. POSSIBILITY THAT SYRIANS WILL PEDDLE THIS THEME CAN ALSO NOT BE EXCLUDED. A SECOND NEGATIVE FACTOR IS THAT IT MEANS USG WILL BE INCREASINGLY LOOKED TO AS EGYPT'S ECONOMIC "CRUTCH." ALREADY, MINISTER OF FINANCE ABU ISMAIL IS URGING THAT MORE OF OUR FY 76 AID BE USED FOR CONSUMMABLES. EGYPTIAN ECONOMIC REASSESSMENT NECESSITATED BY THE SAUDI GRANT IS JUST BEGINNING, BUT IT COULD HAVE FAR-REACHING CONSEQUENCES.

5. APART FROM ABOVE CONSIDERATIONS, EGYPTIANS SEEM TO HAVE FORGOTTEN FACT THAT SAUDIS HAVE FOR PAST TWO YEARS FOLLOWED PRACTICE OF PARCELLING OUT THEIR FINANCIAL HELP TO GOE IN SMALL INCREMENTS, BUT
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CUMULATIVE FIGURE HAS BEEN IMPRESSIVE. HOWEVER GALLING IT MAY BE OR EGYPTIANS TO HAVE TO GO AROUND REPEATEDLY TO FELLOW ARABS WITH BEGGING BOWL, THERE IS NO WAY TO AVOID THIS. JIDDA IS DOUBTLESS IN BETTER POSITION TO JUDGE, BUT IT SEEMS TO US THAT IF PAST EXPERIENCE IS ANY GUIDE, THE EGYPTIANS STILL STAND A CHANCE OF Eeking OUT OF THE SAUDIS IN CY 76 ABOUT A BILLION DOLLARS OR SO. IT IS AFTER ALL ALSO IN SAG'S INTEREST TO HAVE POLITICAL STABILITY IN EGYPT AND A GOE WHICH IS NOT USING ITS PUBLIC MEDIA AND OTHER ASSETS TO UNDERMINE THE SAUDI MONARCHY AS WAS THE CASE A SHORT DECADE AGO.
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